

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
February 25, 2011**

A regular meeting of the Nebraska Investment Council convened at 8:30 a.m. at the Holiday Inn-Downtown in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on February 9, 2011, and published in the Lincoln Journal Star on February 13, 2011. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson
Dr. Richard DeFusco (departed at 11:25 a.m.)
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Don Stenberg
Ms. Phyllis Chambers (departed at 12:45 p.m.)

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Hewitt EnnisKnupp
Mr. Chris Riley, Hewitt EnnisKnupp
Mr. Scott McLerran, Hewitt EnnisKnupp
Mr. Joe Jurich, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Mr. Chris Sanders, Nebraska Investment Council
Mr. Rob Parkinson, Hewitt EnnisKnupp
Mr. Tim Engler, Harding & Shultz

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:30 a.m. to 8:31 a.m. Ms. Werner-Robertson advised that the Nebraska Open Meetings Act applies and stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE NOVEMBER 15, 2010 MEETING: 8:31 a.m. to 8:32 a.m. Mr. Maginn moved that the November 22, 2010, draft of the minutes of the November 15, 2010, meeting be approved as written. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Dr. DeFusco |
| | Mr. Maginn |
| | Mr. Dinkel |
| | Mr. Riffel |
| | Ms. Werner-Robertson |

The motion carried.

COUNCIL MEMBER BUSINESS: 8:32 a.m. to 8:38 a.m. Ms. Werner-Robertson welcomed Mr. Don Stenberg, newly elected State Treasurer and stated that the NIC hopes to continue our good working relationship with the Treasurer's office. Ms. Werner-Robertson indicated that Mr. States would be available if Treasurer Stenberg had any questions or needed assistance.

Ms. Werner-Robertson informed the Council that yesterday, Mr. States, Mr. Vandolder and she had met with the Governor regarding the State's investment outlook. The Governor thanked the Council members for their many years of service and commitment.

Mr. Vandolder updated the Council on recent changes in the NIC relationship team. Mr. Riley who is also a member of HEK's investment manager research team, will dedicate his time to U.S. equity portfolios. Mr. Riley will remain part of the NIC relationship as a dedicated manager research team member. Mr. Vandolder introduced

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Mr. Scott McLerran who will be replacing Mr. Riley as an investment consultant on the NIC relationship. Mr. McLerran holds an undergraduate degree in mathematics from the University of Northern Iowa, Cedar Falls. He is a CFA charter holder and a member of CFA Institute.

4TH QUARTER 2010 PERFORMANCE REPORT: 8:38 a.m. to 10:00 a.m. Mr. Vandolder, Mr. Riley, and Mr. McLerran reviewed the Fourth Quarter 2010 Performance Review included in the meeting book. The report included a market update, performance review, fund monitoring, Operating Investment Pool analysis, risk profiles, and investment manager fees.

PRIVATE EQUITY PORTFOLIO UPDATE: 10:00 a.m. to 10:38 a.m. Mr. Parkinson reviewed the Private Equity Third Quarter Performance Report included in the meeting book. The report included an overview of the market, portfolio policy objectives, pacing, and performance.

At the November 15, 2010 Council meeting, representatives from McCarthy Capital had provided information on a proposed new fund, Fulcrum Growth Partners V, L.P. (FGP V), which they indicated would be available in early 2011. Mr. Parkinson informed the Council that FGP V is now open to receive commitments. FGP V is a small buyout and growth equity fund being raised by McCarthy Capital to invest in lower-middle market companies in a broad range of industries across the United States. FGP V will make equity investments between \$10.0-30.0 million and focus on three main transaction types: 1) buyouts and recapitalizations of private companies; 2) expansion of private companies through acquisitions; 3) expansion of private companies through internal growth. FGP V will take both majority and minority equity ownership positions and will focus primarily on investment in companies located in the Midwestern United States. Mr. Parkinson indicated that Hewitt EnnisKnupp has conducted a thorough qualitative and quantitative assessment of McCarthy Capital and FGP V. Mr. Parkinson discussed the investment merits and concerns associated with the firm. Mr. Parkinson indicated that Hewitt EnnisKnupp recommends that the Council commit \$20 million to the fund, Fulcrum Growth Partners V, L.P. A copy of the presentation was included in the meeting book. Mr. Maginn advised the Council that in the interest of full disclosure he wanted to remind the Council that he had previously worked with McCarthy Capital when he was the Chief Investment Officer at Mutual of Omaha and because of this he would abstain from voting on this matter.

Following discussion by the Council, Dr. DeFusco moved to commit \$20 million to the fund, Fulcrum Growth Partners, V, L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Hewitt EnnisKnupp and by the Council's attorney. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson
Dr. DeFusco

ABSTAINING:

Mr. Maginn

The motion carried.

The Council took a break and reconvened at 10:52 a.m.

FIXED INCOME PORTFOLIO STRUCTURE ANALYSIS: 10:52 a.m. to 11:22 a.m. Mr. Vandolder, Mr. McLerran, and Mr. Riley presented to the Council a review of the NIC's current fixed income structure. At the September 22, 2010, NIC meeting HEK had discussed the concept of classifying the fixed income assets as risky (non investment grade) and non-risky (investment grade). Today's presentation discussed how the current fixed income portfolio is constructed using these classifications, provided information on the active and passive make-up of the fixed income program, and preliminary portfolio attribution information by holdings. Following discussion, the Council requested that HEK work with staff to identify additional non-U.S. debt exposure and more detailed information on the portfolio duration. A copy of their presentation was included in the meeting book.

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NON-U.S. AND GLOBAL EQUITY INDEX PROVIDERS: 11:22 a.m. to 11:30 a.m. Mr. Vandolder, Mr. McLerran, and Mr. Riley reviewed with the Council the memo in the meeting book, Investable Market Index Funds Analysis. At the September 22, 2010 meeting the Council decided to change the passive investment benchmark for the non-U.S. equity portfolio to the MSCI All Country World ex-U.S. Investible Market Index and had selected SSgA over BlackRock as the service provider. At the November 15, 2010 meeting HEK presented to the Council a review of the NIC's current total equity portfolio composition as compared with the global equity benchmark, MSCI All Country World IMI. At that time HEK had indicated that it was comfortable moving 25% of the global equity portfolio to passive from active management. The Council requested that HEK report back at the February 2011, meeting with a recommendation on a portfolio manager and from where the 25% would come. Following the September 2010 meeting it was discovered that the investment management fees for the two index portfolios could be lowered, if the investment management fees were awarded to a single firm. In January 2011 HEK contacted both BlackRock and SSgA and requested each submit investment proposals based on aggregating assets in both the MSCI All Country World ex-U.S. IMI and MSCI All Country World IMI. SSgA and BlackRock both provided the same investment management fee proposal when assuming management of both mandates. Mr. States and HEK recommend that the Council award the investment management for the MSCI All Country World ex-U.S. IMI Index Portfolio and the Global MSCI All Country World IMI Index Portfolio to BlackRock. Blackrock is the existing investment manager for the MSCI All Country World ex-U.S. Index Portfolio, which will be transitioned to the All Country World ex-U.S. IMI Portfolio. Following discussion by the Council, Mr. Maginn moved to adopt the recommendation to award the investment management for the MSCI All Country World ex-U.S. IMI Index Portfolio and the Global MSCI All Country world IMI Index Portfolio to BlackRock for the Defined Benefit, Cash Balance Benefit and General Endowments. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Dinkel Mr. Riffel Ms. Werner-Robertson Mr. Maginn |
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| ABSENT: | Dr. DeFusco |
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The motion carried.

Dr. DeFusco left the meeting at 11:25 a.m.

DEFINED CONTRIBUTION AND DEFERRED COMPENSATION PLAN INVESTMENTS: 11:30 a.m. to 11:35 a.m. Mr. Vandolder and Mr. McLerran reported that the SSgA and BlackRock vehicles just reviewed for the Defined Benefit Plan, Cash Balance Benefit and General Endowments are not available at this time for participant directed daily valued plans including the NIC's Defined Contribution and Deferred Compensation Plans.

NEBRASKA COLLEGE SAVINGS PLAN: 11:35 a.m. to 11:50 a.m. Treasurer Stenberg updated the Council on the transition of the program management of the Nebraska College Savings Plan from Union Bank to First National Bank Omaha. In order to improve customer service, Treasurer Stenberg reported that Upromise will transfer the Nebraska program this summer to its call center in Kansas City, MO.

NPERS DIRECTOR'S REPORT: 11:50 a.m. to 12:07 p.m. Ms. Chambers reported that NPERS' appropriation hearing will be held this afternoon. She also reported that NPERS' Annual Report to the Legislature is scheduled for March 15, 2011. Ms. Chambers distributed a listing of current legislation that could affect NPERS and discussed each with the Council. Ms. Chambers also distributed copies of NPERS' Board Policy #13, Excessive Trading Policy, which was adopted January 24, 2011, by the Public Employees Retirement Board.

A copy of the legislation and Excessive Trading Policy is included in the attachments to the minutes.

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EXEMPTION NIC INVESTMENT EMPLOYEES FROM STATE PERSONNEL SYSTEM: 12:07 p.m. to 12:38 p.m. Mr. States and Mr. Heinrich reviewed with the Council the memo included in the meeting book, Exemption of NIC Employees from State Personnel. The memo relates to exempting investment employees of the Nebraska Investment Council from the State Personnel System. Following discussion, the Council requested that Mr. Heinrich draft rules to be presented at the March 30, 2011 Council meeting, to replace the State Personnel System's Rules and Regulations for NIC investment employees and to provide information on the process for adopting them.

The Council took a break and reconvened at 12:55 p.m.

Ms. Chambers left the meeting at 12:45 p.m.

ROBB EVANS & ASSOC. (RECEIVER FOR WG TRADING CO.) V. NIC: 12:55 p.m. to 1:25 p.m. At 12:55 p.m. Mr. Dinkel made the following motion: I move to enter into closed session. The subject matter of the closed session is the receipt of legal advice from counsel related to the lawsuit filed by the Receiver of WG Trading Company against the Nebraska Investment Council. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Riffel |
| | Ms. Werner-Robertson |
| | Mr. Maginn |
| | Mr. Dinkel |

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| ABSENT NOT VOTING: | Dr. DeFusco |
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The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. States, Mr. Heinrich, Mr. Engler, Mr. Jurich, Mr. Vandolder, and Mr. McLerran be present and all others in attendance were excused.

At 1:25 p.m. Mr. Riffel moved that the Council return to open session. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Ms. Werner-Robertson |
| | Mr. Maginn |
| | Mr. Dinkel |
| | Mr. Riffel |

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| ABSENT NOT VOTING: | Dr. DeFusco |
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The motion carried.

INVESTMENT CONSULTANT SERVICES: 1:25 p.m. to 2:00 p.m. The Council requested that Mr. Vandolder and Mr. McLerran leave the meeting for further Council discussion. Mr. States discussed the memo included in the meeting book relating to the recent surveys taken by the Council on the investment consulting services provided by Hewitt EnnisKnupp. Mr. States indicated that the survey was taken to assist the Council in determining what actions the Council might consider following the 2010 acquisition of Ennis Knupp by Hewitt and the subsequent merger with AON Corporation in the fall of 2010. Following discussion by the Council as a result of the change in ownership, the Council requested that a proposed RFP be developed by staff and submitted to the Council for consideration at the March 30, 2011 meeting.

Mr. Vandolder and Mr. McLerran rejoined the meeting.

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STATE INVESTMENT OFFICER'S REPORT: 2:00 p.m. to 2:32 p.m.

Legislative Update: Mr. States reviewed with the Council the status of legislative bills that may have an effect on the NIC. LB 303 would eliminate restriction on investment in certain operations doing business in Northern Ireland. LB 303 has advanced with no opposition and is on final reading. LB 374 is the appropriation bill and LB 617 relates to the Administrative Rules process. A listing of the legislative bills was included in the meeting book.

4th Quarter Asset Summary Report: Mr. States reviewed with the Council the 4th Quarter Asset Summary Report and reported current assets under management totaling nearly \$16 billion. A copy of the report was included in the meeting book.

Agency Budget Update: Mr. States reviewed the Agency's January 31, 2011 Budget Report, which was included in the meeting book and reported that the Agency is under-budget for the fiscal year.

FX Currency Trading Review: Mr. States reviewed with the Council the memo in the meeting book relating to State Street Foreign Exchange.

University Fund N Update: Mr. States reviewed the 4th Quarter Performance Report for the University of Nebraska-Fund N, which was included in the meeting book. Mr. States stated that as per the NIC's agreement with the University, he and the oversight committee are meeting every six months.

Action Plan, Conferences, and Articles: Mr. States reported the NIC Annual Report to the Legislature will be given on March 15, 2011. The March 30, 2011 Council meeting will be at the Lincoln Embassy Suites, in the Alumni Room.

IMAs Executed Since Last Meeting: Mr. States reported that the documents for TD Ameritrade and Ares Capital Management LLC have recently been signed and that the Cornerstone Patriot Fund has been funded. Also, the T. Rowe Price Stable Value agreement has been modified to add the Reserve Money Market Fund.

Staff Travel: Mr. States reported that he had recently attended the Abbott Capital Advisory Board Meeting and that staff would be attending conferences/meetings in the near future with the following managers: Ares Corporation, Cornerstone, Prudential, and Sun Capital.

PUBLIC COMMENT ON THE AGENDA: 2:32 p.m. to 2:33 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 2:33 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Maginn |
| | Mr. Dinkel |
| | Mr. Riffel |
| | Ms. Werner-Robertson |

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| ABSENT NOT VOTING: | Dr. DeFusco |
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The motion carried.


Kathy Dawes, Secretary